Participation rights and calculation of the effective interest rate (IAS 39 *Financial Instruments: Recognition and Measurement*)—May 2009

The IFRIC was asked for guidance on how an issuer should account for a financial liability that contains participation rights by which the instrument holder shares in the net income and losses of the issuer. The holder receives a percentage of the issuer's net income and is allocated a proportional share of the issuer's losses. Losses are applied to the nominal value of the instrument to be repaid on maturity. Losses allocated to the holder in one period can be offset by profits in subsequent periods. The IFRIC considered the issue without reconsidering the assumptions described in the request, namely that the financial liability:

- does not contain any embedded derivatives
- is measured at amortised cost using the effective interest rate method, and
- does not meet the definition of a *floating rate* instrument.

The IFRIC noted that paragraphs AG6 and AG8 of IAS 39 [now replaced by paragraphs B5.4.4 and B5.4.6 of IFRS 9] provide the relevant application guidance for measuring financial liabilities at amortised cost using the effective interest rate method. The IFRIC also noted that it is inappropriate to analogise to the derecognition guidance in IAS 39 because the liability has not been extinguished.

Because specific application guidance already exists, the IFRIC decided not to add this issue to its agenda.